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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA, SAN JOSE DIVISION

SAN FRANCISCO TECHNOLOGY, INC.,

Plaintiff,

vs.

AERO PRODUCTS INTERNATIONAL INC., BP LUBRICANTS USA INC., BRK BRANDS, INC., CALICO BRANDS INC., COOPER LIGHTING LLC, DAREX LLC, DEXAS INTERNATIONAL LTD., DNYA-GRO NUTRITION SOLUTIONS, FISKARS BRANDS, INC., GLOBAL CONCEPTS INC., HOMAX PRODUCTS INC., KIMBERLY-CLARK CORPORATION, KRACO ENTERPRISES LLC, LIXIT CORPORATION, MEAD WESTVACO CORPORATION, NUTRITION 21 INC., OATEY CO., OPTIMUM TECHNOLOGIES INC., NEWELL RUBBERMAID INC., SCHICK MANUFACTURING INC., THE SCOTTS COMPANY LLC, STERLING INTERNATIONAL INC., VITAMIN POWER INCORPORATED, WOODSTREAM CORPORATION, 4-D DESIGN INC.,

Defendants.

CASE NO. 10-cv-02994-JF

OPTIMUM TECHNOLOGIES, INC.'S MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION TO DISMISS PURSUANT TO RULE 9(B) AND 12(B)(6)

Date: November 19, 2010
Time: 9:00 a.m.
Crtrm.: Courtroom 3, 5th Floor

Hon. Jeremy Fogel

Complaint Filed: July 8, 2010

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I. INTRODUCTION

SFTI alleges that Optimum, together with twenty four other defendants, violated 35 U.S.C. § 292 by marking products with US patent numbers with intent to purposefully deceive the public. As to Optimum, upon information and belief, SFTI identifies Optimum's LOK-LIFT Rug Gripper product as allegedly violating the statute. On information and belief, SFTI alleges that Optimum "made many decisions to mark its falsely marked products" after the expiration date of the patent for the product. On information and belief, SFTI alleges that Optimum "marks its products with patents to induce the public to believe that each such product is protected by each patent listed with knowledge that nothing is protected by an expired patent." In short, the substance of SFTI's allegation against Optimum, made on information and belief, is that a product bearing an expired patent number establishes purposeful deception under the statute.

However, SFTI's false marking allegations sound in fraud, making the complaint subject to the heightened pleading requirements of Fed. R. Civ. P. 9(b). SFTI's complaint does not stand up under Rule 9(b) scrutiny. Indeed, one of the purposes behind Rule 9(b) is to prevent precisely the kind of fishing expedition SFTI apparently seeks to embark upon by leveraging a thimbleful of inconclusive allegations into months of expensive, burdensome, and complicated litigation for the Court, Optimum, and the other defendants to this action.

II. STATEMENT OF ISSUES TO BE DECIDED

Whether SFTI alleged violations of 35 U.S.C. § 292(a) with sufficient particularity under Fed. R. Civ. P. 9(b) where SFTI only alleged that products bearing expired patent numbers are in stores, and infers allegations of fraudulent intent based solely on "information and belief."

III. STATEMENT OF RELEVANT FACTS

On July 8, 2010, SFTI filed its complaint. (Dkt. 1) SFTI's twenty-eight page, one hundred eighty-seven paragraph complaint alleges that twenty-five different defendants engaged in false marking under 35 U.S.C. § 292. *(Id.)*

SFTI's pleadings against each defendant, including Optimum, follow a common theme. Each Count of the Complaint urges that because the numbers of expired patents appear on

products in the stream of commerce, "[u]pon information and belief" and without any supporting factual allegations - each defendant "mark[ed] its products with patents to induce the public to believe that each such product is protected by each patent listed and with knowledge that nothing is protected by an expired patent." (*See, id.* ¶¶ 61, 65, 69, 73, 80, 84, 88, 92, 100, 104, 109, 113, 120, 124, 131, 136, 143, 147 (allegations regarding Optimum), 151, 162,170, 177, 183, 187). SFTI concludes by alleging that each defendant "falsely marked its products with intent to deceive the public." (*See, id.*) Tellingly, SFTI qualifies each and every allegation of Optimum's purportedly fraudulent intent by claiming that the allegation is based "upon information and belief." (*See, e.g., id.* ¶¶ 145-147).

IV. ARGUMENT

"The false marking statute [*i.e.*, 35 U.S. C. § 292] is a fraud-based claim, which is subject to the pleading requirements of [Rule] 9(b)." *Juniper Networks v. Shipley*, No. C 09-696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009); *see also United States ex rel. Shcarmer v. Carrollton Mfg Co.*, 377 F. supp. 218, 221 (N.D. Ohio 1974) (summarizing false marking claims as a "contention . . . [of] a conscious fraud."). Furthermore, a dismissal for failure to comply with the heightened pleading requirements of Rule 9(b) is properly a dismissal for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). Fed. R. Civ. P. 9(b), 12(b)(6); *Zucco Partners, LLC v. Digimarc Corp.*, 552 F.3d 981, 1008 (9th Cir. 2009).

Rule 9(b) requires that '[i]n *all* averments of fraud . . . the circumstances constituting fraud . . . *shall* be stated with particularity." Fed. R. Civ. P. 9(b) (emphasis added). Rule 9(b) requires that a plaintiff set forth the activities underlying the alleged frauds, including the identity of those involved, and their dates, times, and places. *See United States ex rel. Lee v. SmithKline Beecham, Inc.*, 245 F.3d 1048, 1052-53 (9th Cir. 2001); *see also Moore v. Kayport Package Express, Inc.*, 885 F.2d 531, 540 (9th Cir. 1989) ("[M]ere conclusory allegations of fraud are insufficient."). A plaintiff alleging fraud must plead "the who, what, when, where, and how of the misconduct charged." *Kearns v. Ford Motor Co.*, 567 F.3d 1120, 1124 (9th Cir. 2009 (citation omitted). And a party "who makes allegations on information and belief must state the factual basis for the

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relief." *Neubronner v. Milken*, 6 F.3d 666, 672 (9th Cir. 1993). Mere allegations of "suspicious circumstances" do not constitute a sufficient factual basis under Rule 9(b). *Id.*

> Rule 9(b) serves several important purposes:
>
> to give notice to defendants of the specific fraudulent conduct against which they must defend, but also 'to deter the filing of complaints as a pretext for the discovery of unknown wrongs, to protect [defendants] from the harm that comes from being subject to fraud charges, and to prohibit plaintiffs from unilaterally imposing upon the court, the parties and society enormous social and economic costs absent some factual basis.'

Bly-Magee v. California, 236 F.3d 1014, 1018 (9th Cir. 2001) (citation omitted).[1] SFTI's complaint should be dismissed because it fails to meet the heightened pleading standards of Rule 9(b) because SFTI fails to allege Optimum's allegedly fraudulent ***intent*** with particularity.

Rule 9(b) requires SFTI to plead facts sufficient to support its allegations of fraudulent ***intent***, *i.e.*, that Optimum acted "for the purpose of deceiving the public." 35 U.S.C. § 292(a). SFTI failed to do so.

SFTI's conclusory attempts to claim that Optimum "made many decisions" to mark after the patents allegedly expired fail to pass muster under Rule 9(b). *See Juniper Networks*, 2009 WL 1381873 at *4 (conclusory allegations that defendant "knew" marked product not covered by patent were insufficient under Rule 9(b)). In *Juniper Networks*, the court rejected a similarly-styled pleading that alleged the defendant marked an article "kn[owing] that language to be false .

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[1] It is for these same reasons that courts require inequitable conduct claims (which, like false marking claims, sound in fraud) to be pled under Rule 9(b). *Exergen Corp. v. Wal-Mart Stores*, 575 F.3d 1312, 1326-27 (Fed. Cir. 2009); *Juniper Networks*, 2009 WL 1381873, at *4 (relying on precedent which held that Rule 9(b) applies to inequitable conduct claims, in holding that Rule 9(b) applies to false marking claims). And the purposes served by Rule 9(b) accord with the Supreme Court's recent precedent regarding the default standards of pleading under Rule 8. *See Ashcroft v. Iqbal*, ___ U.S. ___, 129 S. Ct. 1949 (2009) ("A pleading that offers 'labels and conclusions' or a 'formulaic recitation of the elements of a cause of action will not do' . . . Nor does a complaint suffice if it tenders 'naked assertion[s]' devoid of 'further factual enhancement.'") (citation omitted); *see also Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 557 (2007 ("Where a complaint pleads facts that are merely consistent with a defendant's liability, it stops short of the line between possibility and plausibility of entitlement to relief.").

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. . ." *Id.* The court noted that false marking claims under 35 U.S.C. § 292 are subject to Rule 9(b) standards, and that the conclusory allegations "that [defendant] 'knew' his reference to the patents was 'false' are . . . insufficient to plead an intent to deceive under section 292(a)." *Id.*. Like the relator in *Juniper Networks*, SFTI's intent pleadings are bare of any factual support and are insufficient under Rule 9(b).

Rule 9(b) also does not permit parties to pile improper inferences of intent on top of "suspicious circumstances." *Neubronner*, 6 F.3d at 672. In *Neubronner*, the Ninth Circuit affirmed dismissal of the plaintiff's allegations on "information and belief" under Rule 9(b), where, *inter alia*, the plaintiff alleged only "suspicious circumstances," namely, that the defendant was an investment banker, and that the ban he worked for eventually sank into financial trouble. *Id.* The Ninth Circuit held that such "suspicious circumstances" "d[id] not constitute a sufficient factual basis" for the allegations of insider trading at issue in that case. *Id.; see also e.g., Stewart v. Wachowski*, No. CV 03-2873 MMM (VBKx), 2005 WL 6184235, at *10 n. 48 (C.D. Cal. June 14, 2005) ("Allegations based on . . . weak factual inferences do not satisfy Rule 9(b) pleading requirements.").

Here, SFTI's allegations that expired patent numbers appearing on products in the stream of commerce is meaningless with respect to any intent associated with the act of marking. At most, SFTI's complaint amounts to allegations of suspicious circumstances that are insufficient to satisfy its obligation to plead fraudulent intent with particularity. After appropriately discounting the facts that SFTI admits it does currently know, SFTI's complaint lacks any facts to support a conclusion that the products in question were marked with any intent, much less "for the purpose of deceiving the public" under 35 U.S.C. § 292(a).

Indeed, in a recent decision in the U.S. District Court for the District of Delaware, Judge Farnan dismissed similarly threadbare pleadings of intent as insufficient to meet the default pleading standards of Rule 8(a), *Iqbal* and *Twombly*. *Brinkmeier v. Graco Children's Prods. Inc.*, --- F. Supp. 2d --- No. 09-262-JJF, 2010 WL 545896 (D. Del. Feb. 16, 2010). Like SFTI does here, the *Brinkmeier* relator tried to parlay the appearance of the numbers of expired patents on

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products in the stream of commerce into an inference of deceptive intent. *See id.* at *4-5. In particular, the *Brinkmeier* relator alleged: (1) that defendant had an Intellectual Property Manger responsible for patent markings; (2) that because certain patents had expired, defendant "cannot have any reasonable belief that such products are protected by such patents"; (3) that defendant "knows, or should know" that the products have been falsely marked; and (4) that "[u]pon information and belief, [defendant] marked products . . . with expired patents for the purpose of deceiving the public into believing that something contained in or embodied in the products is covered by or protected by the expired patent[s]." *Id.* The *Brinkmeier* court rejected these pleadings under default Rule 8(a0 standards: "These allegations alone do not supply enough factual matter to suggest an intent to deceive, and amount to nothing more than the 'mere labels and conclusions' prohibited by *Twombly*. *Id.*[2] Given that SFTI's pleadings are similarly conclusory, they also fail to satisfy the default standards of Rule 8(a), let alone the heightened standards of Rule 9(b).

CONCLUSION

Optimum respectfully submits that the Court dismiss SFTI's complaint against it under Rule 12(b)(6) as a result of SFTI's failure to plead the false marking claim with particularity as required under Rule 9(b).

DATED: October 6, 2010

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[2] In *Brinkmeier*, the court also found that the relator pled sufficient facts as to ***one*** patent marking because it alleged that (1) defendant had been sued by two competitors for infringing the marked patent and (20 that defendant revised its patent markings at least three times since the marked patent expired in June 2007. *Id.* at *4. SFTI's pleadings come nowhere close to that level of detail.

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